

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**RONALD G. TEDROW**  
**Certified Public Accountant**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

To the Department Secretary  
South Dakota Department of Health  
Pierre, South Dakota

and

To the South Dakota State Board of Dentistry  
Pierre, South Dakota

I have audited the accompanying financial statement of net assets – cash basis of the South Dakota State Board of Dentistry as of June 30, 2012 and the related statement of revenues, expenses, and changes in net assets – cash basis and cash flows – cash basis for the year ended June 30, 2012. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the South Dakota State Board of Dentistry prepares its financial statements on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the net assets – cash basis of the South Dakota State Board of Dentistry as of June 30, 2012 and the related statement of revenues, expenses, and changes in net assets – cash basis and cash flows – cash basis for the year then ended on the basis of accounting described in Note 1.

As discussed in Note 1, these financial statements present only the South Dakota Board of Dentistry, an enterprise fund of the State of South Dakota, and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2012 and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only the South Dakota Board of Dentistry and not the state of South Dakota, management has chosen not to present a Management's Discussion and Analysis for the enterprise fund that accounting principles generally accepted in the United States of America require supplementing, although not to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 28, 2013, on my consideration of the Board's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

A handwritten signature in black ink, reading "Ronald H. Tedrow". The signature is written in a cursive style with a large, stylized initial "R".

Pierre, South Dakota  
August 28, 2013

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**STATEMENT OF NET ASSETS - CASH BASIS**

**June 30, 2012**

	<u>2012</u>
<b>ASSETS</b>	
Cash, checking	\$ 212,827
Investments in State Treasury	<u>318,461</u>
Total Current Assets	<u><u>\$ 531,288</u></u>
<b>LIABILITIES</b>	
Due to others	<u>\$ 20,770</u>
<b>NET ASSETS</b>	
Net Assets, unrestricted	<u>510,518</u>
Total liabilities and net assets	<u><u>\$ 531,288</u></u>

See notes to financial statements.

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**

**IN NET ASSETS – CASH BASIS**

**For the Year Ended June 30, 2012**

	<u>2012</u>
Operating Revenues:	
Dentist licenses	\$ 100,370
Expanded/Radiology licenses	41,000
Hygienist licenses	82,455
Temporary licenses	925
Credential verifications	4,650
Corporate licenses	5,300
Membership list	5,645
Other	23,662
Total operating revenues	<u>264,007</u>
Operating Expenses:	
Anesthesia inspection	3,844
Board member services	3,534
Travel	25,858
Grant	7,000
Contractual services	142,836
Office supplies and materials	11,500
Other	513
Total operating expenses	<u>195,085</u>
Operating Income	<u>68,922</u>
Nonoperating Revenue	
Interest income	<u>14,060</u>
Increase in net assets	82,982
Net assets, beginning of year	<u>427,536</u>
Net assets, end of year	<u><u>\$ 510,518</u></u>

See notes to the financial statements.

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**STATEMENT OF CASH FLOWS – CASH BASIS**

**For the Year Ended June 30, 2012**

	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from licensure, inspection	
Fees and permits	\$ 240,345
Payments to board and committee members	(3,534)
Payments to supplier	(191,551)
Other operating receipts	23,662
	<u>68,922</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Amounts due to others	20,770
	<u>20,770</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	14,060
	<u>14,060</u>
Net increase in cash and cash equivalents	103,752
Cash and cash equivalents beginning of year	<u>427,536</u>
Cash and cash equivalents end of year	<u><u>\$ 531,288</u></u>

See notes to financial statements.

## **SOUTH DAKOTA STATE BOARD OF DENTISTRY**

### **NOTES TO FINANCIAL STATEMENTS**

#### **Note 1. Summary of Significant Accounting Policies**

##### ***Reporting Entity***

The South Dakota State Board of Dentistry (the "Board") was created by South Dakota Codified Laws Chapter 36-6A to license and regulate all dentists, dental hygienists, and dental assistants. The Board is attached to the Department of Health for reporting purposes. These financial statements present only the South Dakota State Board of Dentistry.

##### ***Enterprise Fund***

The accounts of the Board are organized as an enterprise fund of the State of South Dakota of which is considered a separate accounting entity, with its own self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. Enterprise funds are used to account for activities for which fees are charged to external users for goods or services to the general public on a continuing basis.

##### ***Cash Equivalents***

The Board considers cash equivalents to include the State Treasury fund, which is recorded at fair value.

##### ***Basis of Accounting***

The Board's accounts are maintained, and the accompanying financial statements are presented on the cash basis which is another comprehensive basis of accounting. Under this basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, receivables, accounts payable, and other accrued expenses are not included in the financial statements. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation and changes in net assets balance in conformity with generally accepted accounting principles.



## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (continued)

#### *Classification*

The South Dakota State Board of Dentistry distinguishes operating revenues and expenses from nonoperating items. Operating revenues relate to activities associated with the licensure and regulation of dentistry. Expenses include the costs of operating the South Dakota State Board of Dentistry, including contractual services and administration. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Nonoperating revenues include interest income from such cash invested in state accounts.

In the Statement of Revenues, Expenses, and Changes in Net Assets – Cash Basis, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows – Cash Basis. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

#### *Deposits*

The Board follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Board deposits are made in qualified public depositories as defined by SDCL 4-6A-1.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

The bank balances at June 30, 2012, were as follows:

	2012
Insured (FDIC/NCAU)	\$ 223,606
Deposits held in State Treasury	318,461
	<u>\$ 542,067</u>

The carrying amount of deposits on the June 30, 2012, statement of net assets were \$ 531,288 respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Cash

Cash at June 30, 2012 was comprised of the following:

	2012
Cash in Bank	<u>\$ 212,827</u>
Cash in State Treasury	<u>318,461</u>
	<u>\$ 531,288</u>

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report, which can be obtained by contacting the South Dakota Department of Legislative Audit.

### Note 3. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to personnel; and natural disasters. The Board is uninsured for property loss. The Board participates in various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Dennis Daugaard  
Governor of South Dakota

and

To the Department Secretary  
South Dakota Department of Health  
Pierre, South Dakota

and

To the South Dakota State Board of Dentistry  
Pierre, South Dakota

I have audited the financial statements of the South Dakota State Board of Dentistry as of and for the year ended June 30, 2012 and have issued my report thereon dated August 28, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the South Dakota State Board of Dentistry is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered South Dakota State Board of Dentistry's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Dakota State Board of Dentistry's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of South Dakota State Board of Dentistry's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Current Audit Findings and Responses as item 12-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota State Board of Dentistry's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

South Dakota State Board of Dentistry's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit South Dakota State Board of Dentistry's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, the governing board of the South Dakota State Board of Dentistry and the State of South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota law, this report is a matter of public record and its distribution is not limited.



Pierre, South Dakota  
August 28, 2013

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES**

**Year Ended June 30, 2012**

**CURRENT AUDIT FINDING:**

Finding No: 12-01

There is a lack of segregation of duties for the revenue and financial reporting functions.

***Criteria:***

Internal controls should be in place to provide reasonable assurance that revenue is properly processed and recorded. Controls also need to be in place to ensure accurate and reliable financial reporting.

***Condition:***

There is a lack of segregation of duties within the cash receipts/revenue and financial reporting functions. The Board of Dentistry's management firm erroneously deposited some of the firm's receipts to the Board of Dentistry's local account.

***Effect:***

The revenue per the general ledger was overstated by the amount of \$20,770. The amount was subsequently reclassified as a liability.

***Recommendation:***

Under these circumstances, generally the most effective controls lie in (1) management and the Board's knowledge of the Entity's financial operations and (2) attempting to provide compensating controls wherever possible and practical. The basic premise is that no one person should have access to both the physical assets and related accounting records or have control over a transaction from its inception through its completion. More specifically, I recommend the administrative assistant independently compare revenues recorded in the monthly financial statements with a schedule summarizing revenues from licenses, fees and permits and resolve any variances.

***Management's Response:***

We have evaluated the segregation of duties over the revenue function and over the reporting function. Management and the Board of Dentistry will exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to an acceptable level. Due to the Board's size and other cost considerations, we believe the cost of any further controls would outweigh the related benefits.

**SOUTH DAKOTA STATE BOARD OF DENTISTRY**

**SCHEDULE OF PRIOR AUDIT FINDING**

**Year Ended June 30, 2012**

**PRIOR AUDIT FINDING:**

The prior audit finding related to the segregation of duties for the revenue and financial reporting functions. A similar finding is reported in the current year on page 11.